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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Current Soviet actions raise the possibility that the USSR may undertake the creation of a "Berlin" situation in the city of Vienna. The USSR unquestionably has the capabilities of blocking Western surface connections with the city of Vienna and probably believes that the Western Powers, with the limited capacity of emergency air facilities, could not fully supply their Vienna sectors while Berlin airlift operations are continuing. Although the USSR probably estimates that it is in a position thus to discredit the Western Powers in Austria and increase the chances of Western collapse in Berlin, it appears unlikely that such a provocative step will actually be taken in the near future.

The Mexican air carrier, Proveedora Mundial, may be ferrying aircraft to Europe for possible use in clandestine air transport operations as a front for the US-owned Service Airways. It is also possible, in view of Panama's cancellation of the aircraft registrations of Service Airways' Panamanian subsidiary, that an attempt will be made to transfer these aircraft to Mexican registration under cover of the existing Proveedora Mundial organization. This action would divert suspicion from continued illicit operations and would provide legitimate registrations for the former Panamanian aircraft.

A possible front organization for clandestine air operations may have been established in Honduras.

The Communist Party of Czechoslovakia has assumed a direct role in supplying arms to Israel through its control of a newly-formed export company organized for this purpose.

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- 2 -

The recently reported Kremlin decision that the European Transport System is the most vulnerable point in the ECA program may result, in the near future, in Communist-inspired strikes and agitation among transport and dock works, particularly in France and Western Germany.

There is no indication that the USSR has reversed its policy of dismantling extensive segments of the rail system in the Soviet Zone of Germany.

A recent formal note regarding Finland's Salla railroad was probably handed to the Finnish Government with the ulterior motive of bringing pressure to bear on the Swedish Government by publicizing Soviet strategic capabilities toward the Swedish border.

A major problem in the rehabilitation of European transportation has probably been solved by the conclusion of an agreement between the Bizonal Joint Export-Import Agency (JEIA) and Belgian-Dutch representatives. Under this agreement, some goods now moved to Western Germany via German North Sea ports will be diverted to the Low Country ports for shipment up the Rhine.

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- 3 -

SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

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1. Current Soviet actions raise the possibility that the USSR may undertake the creation of a "Berlin" situation in the city of Vienna. The recent Soviet charge that US aircraft flying the Prague-Vienna air corridor had committed eighteen "violations" (since disproved after investigation by US authorities) may be indicative of a Soviet intention to establish a record of alleged "violations" which may later be used to justify restrictive action in prohibiting or limiting Western air access to Vienna. It is appropriate, therefore, to examine the transportation problem which would face the Western Powers should the USSR attempt a blockade of Vienna.

Present quadripartite agreements provide the Western Powers with access to Vienna along specific rail, road, and air routes for the movement of supplies from the western zones of Austria. The primary difference in the case of Vienna, as compared to Berlin, lies in the fact that all air bases allocated to the Western Powers are located in the Soviet Zone, thus necessitating surface linkage through the Soviet Zone into the city of Vienna. Should the USSR elect to restrict Western access to Vienna, any one or a combination of the following courses may be pursued: restriction or denial of access by road, rail, or air on the grounds that the Western Powers have abused privileges or violated agreements; discovery of "technical" difficulties; contention of inadequacy of present "flight safety" regulations; and disagreement over interpretation of agreements.

By denying the use of rail routes (now handling practically all the shipments of civil and military supplies from the Western Zones into the Western sectors of Vienna) and closing off the highways to Vienna, the facilities of present air bases would be negated, and the Western Powers would be forced to construct "emergency" strips within their sectors of Vienna. If the USSR decides on this step, it will probably take concurrent action to interrupt the present arrangements under which food is distributed in Vienna by the Austrian Government. While there is no presently expressed obligation on the Western Powers to feed the population of their Vienna sectors, the USSR could in effect force the Western Powers to bring in food from air bases in the Western Zones. To accomplish this, the USSR would need only to subject the continued movement of food from the Soviet Zone to obnoxious conditions which the Western Powers cannot tolerate.

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- 4 -

The Kremlin probably believes that with the limited capacity of emergency facilities the Western Powers could not fully supply their Vienna sectors while the Berlin airlift operations are still necessary, and that it is in a position, therefore, to discredit the Western Powers in Austria and increase the chances of Western collapse in Berlin. The USSR unquestionably has the capability of precipitating the crisis analyzed in the preceding paragraphs and the Kremlin has no doubt given careful consideration to such action. On the other hand, it still appears that the chances are definitely against this eventuality materializing in the near future.

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The Mexican air carrier, Proveedora Mundial, may be ferrying aircraft to Europe for possible use in clandestine air transport operations. This organization is believed to be a front for the continued illicit activities of the US-owned Service Airways in support of Israeli forces.

Proveedora Mundial first came under suspicion through tentative identification in July, 1948, of three of its C-46 aircraft as former Service Airways equipment. One of these aircraft (Mexican registration XB-JED) was recently ferried from Miami to Newark for maintenance and then departed for Europe or the Near East. It is noteworthy that the US pilot on both flights, Martin Rybakoff, has previously engaged in the clandestine operations of a Service Airways subsidiary, Lineas Aereas de Panama, S.A. (LAPSA). Furthermore, Proveedora Mundial's application for a CAA foreign ferry flight permit to Newark requested a transit stop at Lumberton, North Carolina. The proximity of this small North Carolina town to Laurinburg-Maxton airfield, the US operational base of another known clandestine operator (Northern Atlantic Airways), renders increasingly suspicious the operations of this Mexican air carrier. Search of the aircraft by US Customs officials before its departure from Newark failed to reveal illegal cargo or other irregularities and the aircraft departed under proper clearance, allegedly for Rome. The declared purpose of the flight was to fulfill contractual obligations for air transport services between Rome and the Near East.

Another Mexican C-46 with a US crew was reported to have landed at Geneva in August, 1948, also allegedly en route to Rome. (Although reported as bearing registration markings XB-GDM, this aircraft may actually have been XB-JIM, a known Proveedora Mundial C-46 formerly belonging to Service Airways.) This aircraft carried no cargo, but was improperly documented for international operations. Swiss authorities

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- 5 -

released the aircraft after three days, during which time it was reported to be awaiting the arrival from an unknown station of another aircraft with a cargo of aircraft parts. Neither the Mexican aircraft nor its US crew have been identified, but it is reasonable to suspect that it may have been operated by Proveedora Mundial on behalf of Service Airways.

It is possible, in view of the recent cancellation by Panama of all LAPSA registrations in that country, that the US-owned parent company, Service Airways, may attempt to register in Mexico, under cover of the existing Proveedora Mundial organization, the now "stateless" aircraft which it formerly operated through LAPSA. This action would be designed to divert suspicion from LAPSA's continued illicit operations, by the use of a new front organization which LAPSA hopes can escape widespread suspicion. In any case, the transfer, if successful, would provide internationally recognized aircraft registrations.

3. A possible front organization for clandestine air operations may have been established in Honduras. A Swiss aviation trade publication has reported the recent formation of a Honduran air carrier, Transportes Aereos de Honduras, which allegedly plans to establish service between Tegucigalpa and Rome via New York, Gander, Shannon, and Paris with DC-4 aircraft. Two special DC-4 flights to Rome are said to have been already made.

There have been no reports indicating the financial backing of the new company. Its Managing Director is reported to be a Captain Eugen von Sgardelly of Hungarian origin. It is further stated that the airline is capitalized at "\$17,200." Thomas Cook and Sons will represent the company in Europe, except for Italy, where headquarters are said to have been established in the Rome offices of the Italian airline, Salpanavi. (The Italian line has applied to the Italian Government for authorization to operate a Rome-New York service with DC-4 aircraft chartered from Trans-Caribbean Air Cargo Lines.) There is no evidence presently available to the Central Intelligence Agency confirming the existence of Transportes Aereos de Honduras. If the report is true, however, the normal airline traffic potential between Honduras and the US or Europe would not seem to justify such an undertaking on economic grounds. Although there is a substantial immigrant movement by air from Europe to the Caribbean area, there is as yet no indication that the Honduran line has been formed to accommodate this type of traffic. Furthermore, any Honduran airline venture of such an extensive nature would almost certainly require other-than-Honduran financing. Since Central American nations have previously provided refuge for illicit air

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- 6 -

operators attempting to evade US aviation regulations and export controls, it is possible that Transportes Aereos de Honduras has been established as a subsidiary and front organization for Israeli or other interests engaged in covert operations.

NOTE: The foregoing information is submitted as a preliminary evaluation, pending further investigation.

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4. The Communist Party of Czechoslovakia has now assumed a direct and active role in supplying arms to Israel through control of a newly-organized export company in which private interests have subscribed 49 percent of the capital investment. Although there is no indication as yet that this company intends to export arms to Israel by air, it is likely that this method will be utilized, in view of the ease with which UN surveillance has been evaded in the past by this means.

SURFACE TRANSPORTATION

5. Increased Communist-inspired labor strife among transport and dock workers in ERP countries may be anticipated in the near future as a result of the recently reported Kremlin decision that disruption of the European Transportation system provides the most effective means remaining for scuttling the ECA program. Of the countries which might be affected by such Moscow-instigated action, France is probably the most susceptible to serious dislocations, in view of the powerful position of the Communists in French labor organizations. While labor in Western Germany is less likely to accept Moscow direction, the area is particularly vulnerable to even minor dislocations in its already over-strained rail transport system. Other ERP countries are not likely to suffer more than minor dislocations caused by Communist elements within the ranks of transport and dock workers.
6. The status of the railroad system in the Soviet Zone of Germany is of exceptional interest, in view of the possibility that major Soviet strategic plans for large-scale operations in Western Europe might require a reversal of the policy of dismantling the Eastern German network. Actually, the rail system of the Soviet Zone continues to operate

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- 7 -

in an extremely precarious manner, with little improvement evident. Considerable quantities of "dismantled" rails are still being shipped out of Germany to the East and the only double-tracked line out of Berlin runs East to Posen. Although the USSR has propagandized certain projects for alleged restoration of double-tracks on portions of some former double-tracked lines, it appears that, even if such intentions exist, no substantial progress has been made. The USSR actions still indicate that top priority is being given to the restoration and construction of its own rail system, and German-manufactured railway equipment is being shipped to the USSR, irrespective of the needs of the German system.

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7. A recent formal note inquiring as to the status of reconstruction of Finland's Salla railroad was probably handed to the Finnish Government by the USSR for purely ulterior political reasons. The note professes a desire to be informed on the progress which Finland has achieved in rebuilding, under the terms of the 1947 Moscow Peace Treaty, a Finnish segment of the railroad which formerly ran from the Western tip of the White Sea across Soviet territory and Finland to a point at the Northern end of the Gulf of Bothnia. The line connects from that point with the Swedish railway network. This Finnish segment, originally constructed by Finland under the terms of its 1940 Peace Treaty with the USSR, was almost totally destroyed by the Germans during World War II.

Actually, the USSR is undoubtedly fully informed as to Finland's reconstruction efforts. While the Finns are attempting to make rapid progress with this work, they are being hampered by shortage of materials and terrain difficulties. Twenty-one bridges, the most difficult of which spans Lake Kemi, are still to be rebuilt.

Through its recent note, the USSR has probably found it expedient to bring pressure on the Swedish Government at this time by publicizing its interest in the extension of its strategic capabilities toward the Swedish border.

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A ninety-day provisional agreement concluded by the Bizonal Joint Export-Import Agency (JIEA) with the Belgian-Dutch representatives will probably be ratified by the Belgian and Netherlands Governments and initiate a permanent settlement of a major problem in European transport rehabilitation. JIEA will now divert to Rotterdam and Antwerp some incoming traffic for Western Germany formerly imported through German North Sea ports. Economic advantage to Bizonia will be the criterion for such diversion, but the low countries are free to allocate traffic between Rotterdam and Antwerp provided no increase in cost to Bizonia results. In addition to stimulating port activity in the low countries, the agreement will benefit the German economy by (1) allowing Dutch barges to operate on the upper Rhine and Mittelland Canal, thus increasing German waterborne traffic, and (2) giving German barges access to the lower Rhine and certain low country canals.

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